

**EDMONSON COUNTY
SCHOOL DISTRICT**

FINANCIAL STATEMENTS

June 30, 2003

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District
Brownsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Edmonson County School District** (the "District") as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 of the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting

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Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*, Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 9, 2003 on our consideration of **Edmonson County School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 15 and 58 through 59 are not a required part of the basic financial statements but are supplementary information required by *Governmental Accounting Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Edmonson County School District's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional information shown on

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District

pages 61 through 67 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Holland CPAs, PSC

Bowling Green, Kentucky
September 9, 2003

REQUIRED SUPPLEMENTARY
INFORMATION

MANAGEMENT'S DISCUSSION
AND ANALYSIS

**EDMONSON COUNTY BOARD OF EDUCATION
BROWNSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2003**

As management of the Edmonson County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

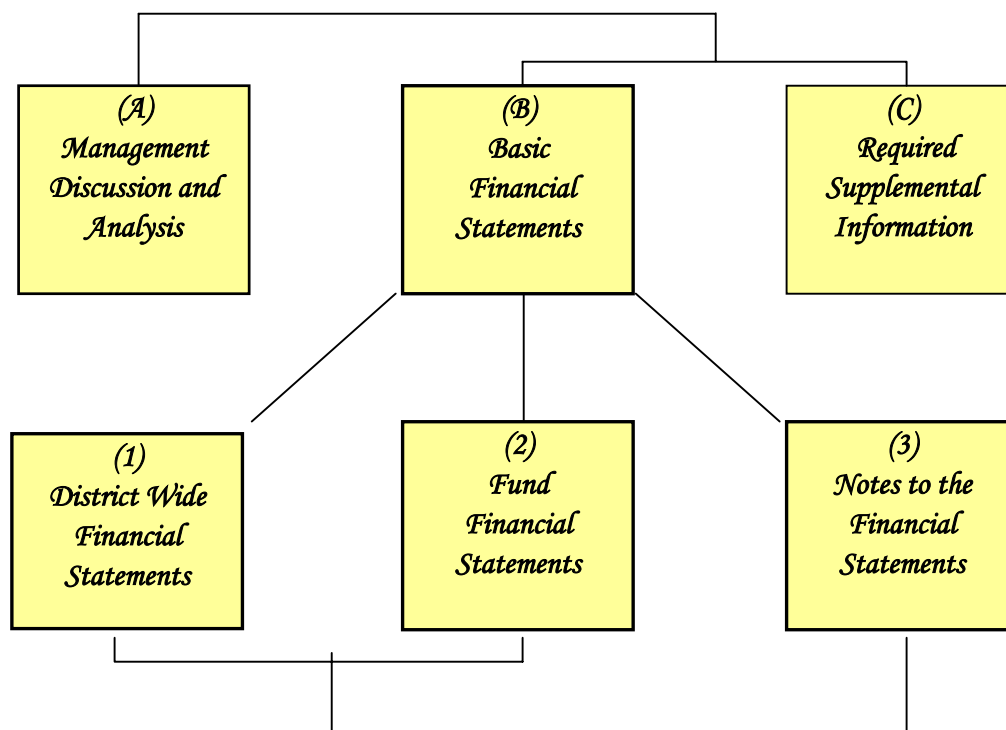
- The beginning General Fund fund balance for the District was \$2,812,896. The ending General Fund fund balance was \$2,009,704. The major reason for the decline of \$803,192 in the fund balance was the transfer of funds to the Construction Fund for the purpose of renovating the Edmonson County High School including the addition of a 7th/8th Grade Center, an auxiliary gymnasium and auditorium.
- The Annual Financial Report will show the General Fund with a large increase in state revenue due to a change in reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's on behalf payments to our employee's health insurance and retirement is included in the District's revenues and expenditure for the first time. The revenue is recorded as state aid. This amount was \$1,849,627. The expenditure of this money is recorded in different functions.
- Bonds were issued for the District to renovate facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The issuance of these bonds for the Edmonson County High School Renovation project caused the District's total debt to increase by \$ 7,185,000 during the current fiscal year.
- During fiscal year 2003, the District qualified to participate in the Qualified Zone Academy Bond (QZAB) program whereby the federal government extends interest free financing to public school Districts who meet stringent requirements. The Richard S. Reynolds Foundation has donated a total of \$150,000 toward the related renovation project which allowed the District to receive a QZAB in the amount of \$500,000.
- During 2003 the District completed the demolition of the Tandie McIntyre Building at a cost of \$56,950 and sold the Chalybeate School property for \$87,855 both of which are non-recurring General Fund items.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Edmonson County School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis, (B) the basic

financial statements, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the School District as a Whole

One of the most important questions asked about the School District is "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most

private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky's SEEK funding formula and its adjustments, the School District's property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the School District is divided into two distinct kinds of activities:

- **Government Activities** – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District's food service is reported as business activities. These activities are funded thru fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11,875,599 as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding (\$5,786,036). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the School District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The

School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school Districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds are reported as fiduciary funds. The only proprietary fund is the school food fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the District are included in the governmental funds. The major governmental funds for the Edmonson County School District are the general fund, special revenue (grants), and the construction fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The only proprietary fund is our food service operations.

Fiduciary Funds – The schools' activity funds (or agency funds) is the District's only fiduciary fund. The schools' activity balances at year-end totaled \$101,078.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2003 *

	Governmental Activities	Proprietary Business-Type Activities	Total
Current and Other Assets	\$ 9,077,981	\$ 186,336	\$ 9,264,317
Capital Assets	19,226,999	264,451	19,491,450
Total Assets	\$ 28,304,980	\$ 450,787	\$ 28,755,767
Long Term Liabilities	\$ 13,362,146	\$ 0	\$ 13,362,146
Other Liabilities (current)	3,517,490	532	3,518,022
Total Liabilities	\$ 16,879,636	\$ 532	\$ 16,880,168
Net Assets			
Investment in capital assets (net of debt)	\$ 5,521,585	\$ 264,451	\$ 5,786,036
Restricted	4,492,449	0	4,492,449
Unrestricted Fund	1,411,310	185,804	1,597,114
Total Net Assets	\$ 11,425,344	\$ 450,255	\$ 11,875,599

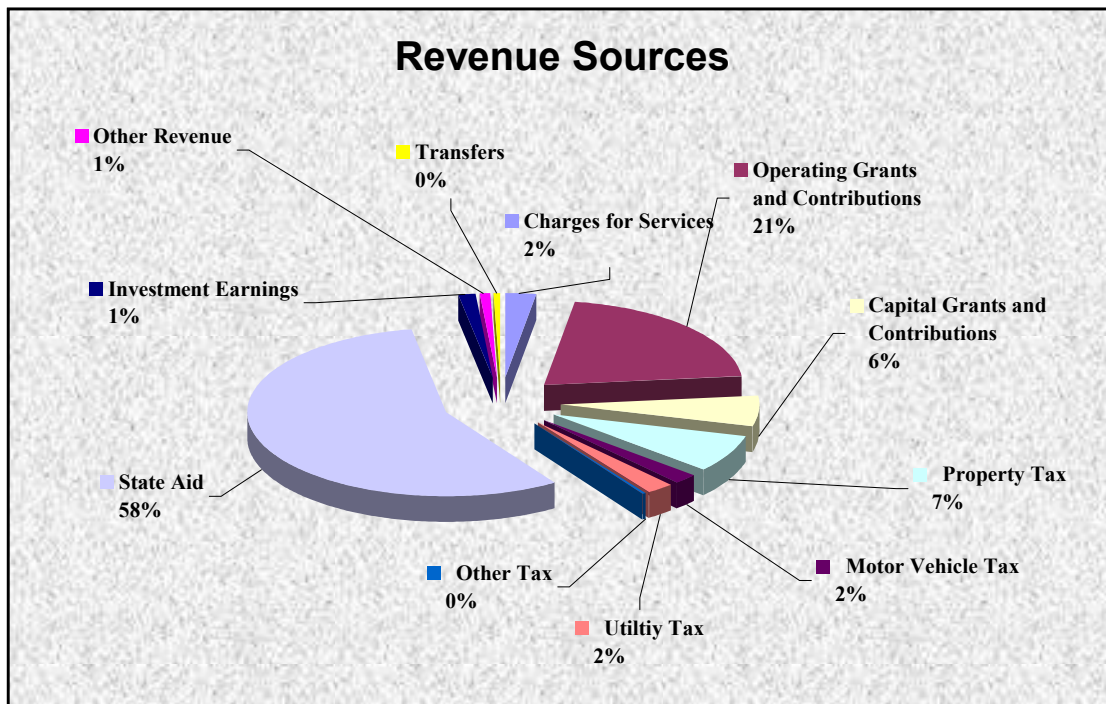
* Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

At year-end assets exceeded liabilities by \$11,875,599.

Changes in Net Assets for the period ending June 30, 2003*

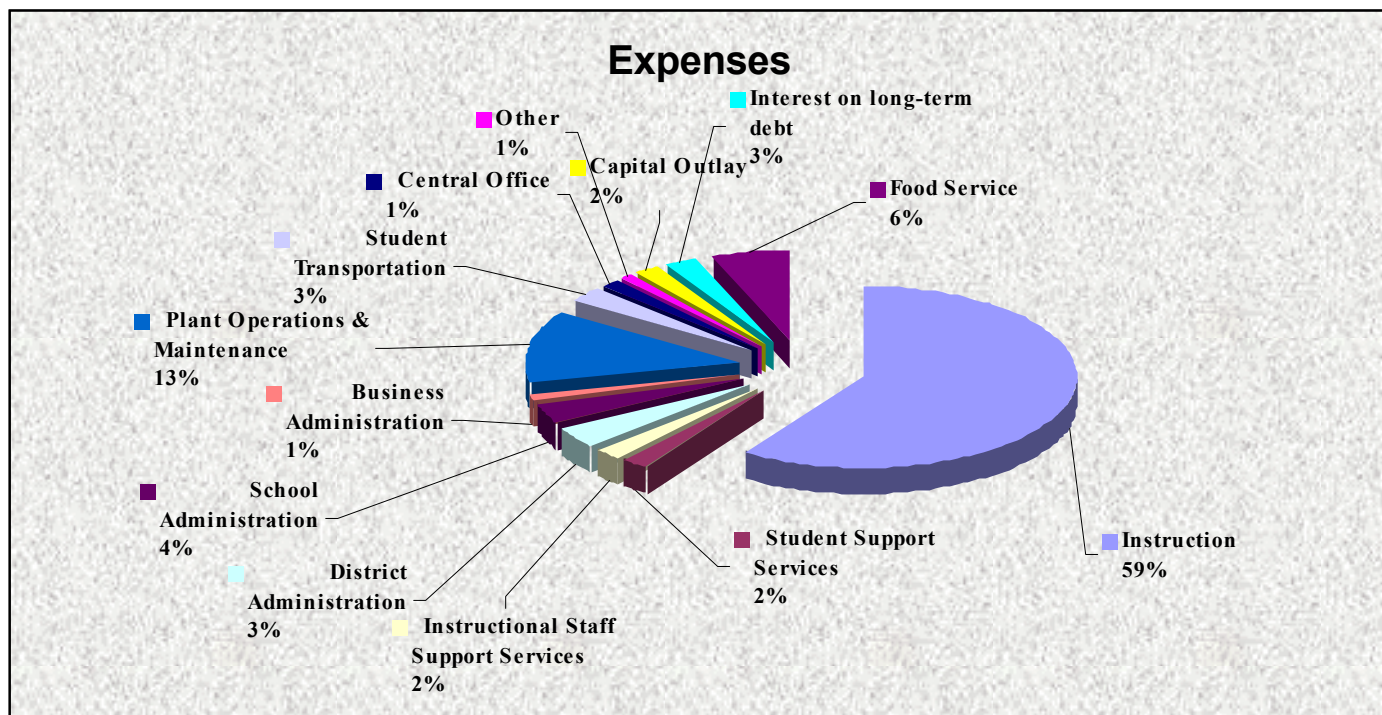
	Government Activities	Proprietary Business- Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$22,141	\$376,977	\$399,118
Operating Grants and Contributions	\$2,895,076	\$615,669	\$3,510,745
Capital Grants and Contributions	\$970,230	\$ 0	\$970,230
General Revenue			
Taxes			
Property Tax	\$1,202,206	\$ 0	\$1,202,206
Motor Vehicle Tax	\$299,989	\$ 0	\$299,989
Utility Tax	\$404,675	\$ 0	\$404,675
Other Tax	\$8,559	\$ 0	\$8,559
State Aid	\$9,455,495	\$ 0	\$9,455,495
Investment Earnings	\$192,209	\$2,899	\$195,108
Other Revenue	\$173,473	\$ 146	\$173,619
Transfers	\$ 0	\$ 77,236	\$ 77,236
Total Revenues			<u>\$16,696,980</u>

* Note: In subsequent years, this chart will compare last year's revenues to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.



Program Expenses *	
Instruction	\$9,501,262
Support Services	
Student Support Services	\$425,519
Instructional Staff Support Services	\$522,335
District Administration	\$603,008
School Administration	\$483,159
Business Administration	\$183,743
Plant Operations & Maintenance	\$1,111,205
Student Transportation	\$1,038,459
Central Office	\$20,317
Other	\$475,308
Facilities Acquisition and Construction	\$11
Interest on long-term debt	\$494,117
Food Service	\$932,033
Total Expenses	\$15,790,476

* Note: In subsequent years, this chart will compare last year's expenses to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

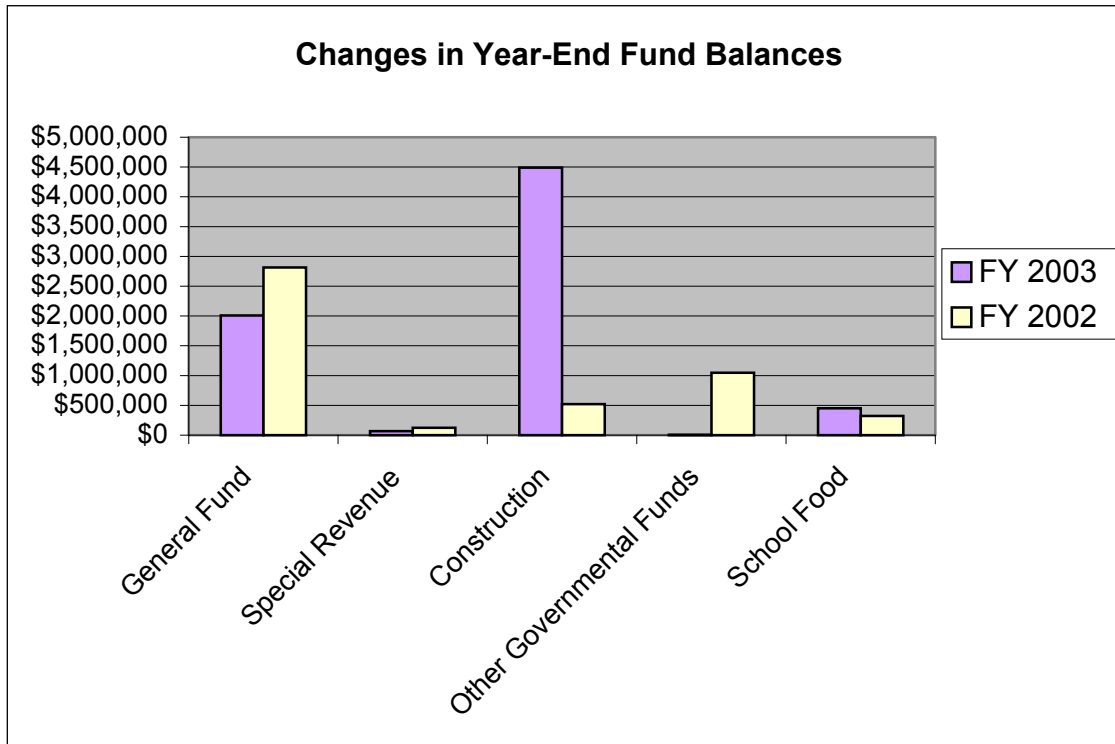


- The District's total revenues were \$16,696,980 and the total expenditures were \$15,790,476. Revenues exceeded expenditures by \$906,504.
- State revenues accounted for 58% and local taxes accounted for 11% of the revenue.
- The District had one revenue that was non-recurring sources of revenue (sale of property \$87,855).
- Instruction was the major expense category and accounted for 59% of the total.
- Food service revenues exceeded expenses by \$140,894.

Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances

	FY 2003	FY 2002	Amount of Change	% Change
General Fund	\$2,009,704	\$2,812,896	(\$803,192)	-29%
Special Revenue Fund	\$67,994	\$123,718	(\$55,724)	-45%
Construction Fund	\$4,490,839	\$520,824	\$3,970,015	762%
Other Governmental Funds	\$5,681	\$1,048,399	(\$1,042,718)	-99%
School Food	\$450,255	\$309,361	\$140,894	45%
Total	\$7,024,473	\$4,815,198	\$2,209,275	45%



- The General Fund's fund balance showed a negative change of \$803,192. This was primarily due to the transfer of funds to the Construction Fund of \$809,863.
- The Special Revenue Fund had a negative change of \$55,724 which was due to the increased net spending of technology funds in 2003 relative to spending in 2002.
- The Construction Fund shows an increase in fund balance of \$3,970,015 due to the significant size of fund transfers and bond proceeds associated with the renovation/addition at Edmonson County High School in 2003. Fund transfers and bond proceeds totaled \$2,093,548 and \$7,185,000 respectively.
- Other Governmental funds show a decline of \$1,042,718. This decline is primarily due to fund transfers of \$824,783 to the Construction Fund. In addition, a non-recurring payment of \$297,000 was made to the escrow agent for Qualified Zone Academy Bonds (QZAB) issued in 2003 for construction purposes.
- The School Food Service Fund's fund balance had a \$140,894 increase due to increased meal pricing, the addition of milk vending machines in two schools, increased emphasis on profitability and transfer of fixed assets from the construction fund relating to South Edmonson Elementary.

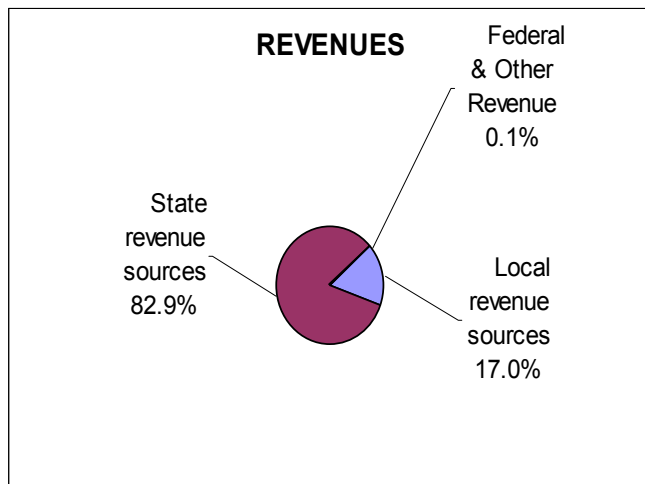
Comments on General Fund Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2003, were \$11,404,519. This is \$1,886,653 more than was budgeted in the final working budget. The

primary reason for the difference is that GAAP requires our audit to include state contributions to our employee's retirement, health and life insurance. This is referred to as "On-Behalf" revenue. The District does not get these funds directly and it is not included in our budget. However, it must be in the District's audit. This "On-Behalf" contribution was \$1,849,575 for 2002-2003. The District budgets for its local revenues (taxes, earned interest, and tuition) in a conservative manner. Thus, local revenues were slightly higher than budgeted (\$36,840).

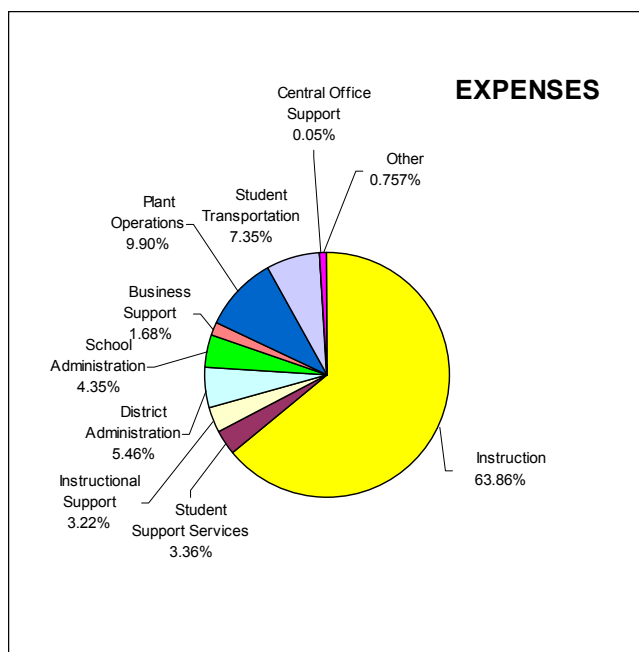
- Expenditures were also greater than budgeted primarily because of the inclusion of the in-kind state benefits mentioned above. The \$1,849,575 "On-Behalf" money was shown spent in the different functions (instruction, and support services). Instruction shows \$1,284,026 more spent than budgeted.
- District administration shows a \$1,530,104 surplus. The reason is because this is where the District's contingency is budgeted. The contingency is not meant to be expended, but is to be used as the District's beginning balance for next year. The contingency budgeted was actually \$1,592,114.
- The Final Budget and the Original Budget differ primarily because the Original Budget is prepared by the end of February for the next school year and the state had not adopted their budget yet. The District adopted a 2.7% pay raise in the Final Budget after the state adopted its budget.

The following tables present a summary of revenue and expense of the General Fund for the fiscal year ended June 30, 2003.



	<u>Amount</u>
Revenues:	
Local revenue sources	\$ 1,937,052
<i>Taxes</i>	
<i>Property</i>	\$ 843,150
<i>Motor Vehicle</i>	299,989
<i>Utilities</i>	404,675
<i>Other</i>	8,559
<i>Tuition and Fees</i>	22,141
<i>Earnings on Investments</i>	189,268
<i>Other Local Revenue</i>	169,270
State revenue sources	9,455,495
Federal Revenue	11,972
Other Sources	0
Total revenues	\$ 11,404,519

The majority of revenue was derived from state funding (83%) with local revenue sources making up 17% of total revenue.



Expenditures:

Instruction	\$ 6,974,763
Student Support Services	366,606
Instructional Support	352,191
District Administration	596,811
School Administration	475,290
Business Support	183,743
Plant Operations	1,081,041
Student Transportation	802,882
Central Office Support	5,632
Other	82,690
Total expenses	\$ 10,921,649

Revenues in Excess of Expenditures \$ 482,870

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2003, the District had invested \$19,491,450 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total of assets was \$27,810,932 with accumulated depreciation of \$8,319,482. The District sold property from one closed facility (Chalybeate School) and completed construction of a new bus garage maintenance facility. The District also began construction of a 7th/8th Grade Center as an addition to the Edmonson County High School.

SUMMARY OF CAPITAL ASSETS *

	Governmental Activities	Business-Type Activities	Total
Land	\$ 758,559	\$ 0	\$ 758,559
Buildings	17,240,070	0	17,240,070
Equipment and Furniture	1,228,370	264,451	1,492,821
Total Assets	\$ 19,226,999	\$ 264,451	\$ 19,491,450

* Note: In subsequent years, this chart will compare last year's Capital Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Long-Term Debt

At year-end the District had \$13.7 million in general obligation bonds outstanding. This was an increase of 82 % over last year. The increase was due to the bond issue of \$7.185 million for the Edmonson County High School Renovation project.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for the Edmonson County School District include the need to increase our Average Daily Attendance, decrease our District drop-out rate, provide a diverse instructional paradigm with greater emphasis on technology and provide modern facilities for our students and staff.

Our District received the majority of our funding from the state level. While our District is experiencing some growth in student population, we need to increase our District-wide ADA percentage. Students, parents and community leaders must work together to affect a positive change in the perception of how important education is for all stakeholders.

While the District drop-out rate is higher than desirable, the District is now working diligently with students who are identified to be “at risk” of dropping out of school. The District is one of three local Districts who participate in a federally funded program to keep additional students in school. The District will be challenged financially to fund this program after the federal grant is exhausted.

The Edmonson County School District believes the present and future success of our students involves greater emphasis on the use of technology as an instructional tool. The challenge is not limited to the funding of hardware and instructional software, but the professional development and on-going training of personnel is of paramount importance and concern.

The District has made great strides in the improvement of facilities in the past few years allowing the District to accommodate substantial growth with current facilities. Future emphasis will be given to modernize the Early Learning Center and provide HVAC renovation to Kyrock Elementary School.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District’s finances and to show the School District’s accountability for the money it receives. If you have any questions about this report or need additional information, please contact Kathy Meredith, Finance Officer (270)597-2101, PO Box 129, 100 Wildcat Way, Brownsville, KY 42210 or e-mail at kmeredit@edmonson.k12.ky.us.

BASIC FINANCIAL STATEMENTS

EDMONSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2003

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 3,922,721	\$ 107,070	\$ 4,029,791
Investments	4,539,442	0	4,539,442
Accounts receivable:			
Accounts	615,818	49,923	665,741
Inventory	0	29,343	29,343
Non-depreciated capital assets	5,374,684	0	5,374,684
Depreciable capital assets	21,939,093	497,155	22,436,248
Less: accumulated depreciation	(8,086,778)	(232,704)	(8,319,482)
TOTAL ASSETS	28,304,980	450,787	28,755,767
LIABILITIES			
Accounts payable	2,150,531	532	2,151,063
Accrued liabilities	19,326	0	19,326
Deferred revenue	333,906	0	333,906
Accrued interest	173,028	0	173,028
Long-term obligations:			
Due within one year:			
Outstanding bonds	770,013	0	770,013
Compensated absences	70,686	0	70,686
Due beyond one year:			
Outstanding bonds	12,935,401	0	12,935,401
Compensated absences	426,745	0	426,745
TOTAL LIABILITIES	16,879,636	532	16,880,168

See accompanying notes to the financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt	5,521,585	264,451	5,786,036
Restricted for:			
BG-1 projects	4,490,839	0	4,490,839
SFCC	1,610	0	1,610
Unrestricted	1,411,310	185,804	1,597,114
TOTAL NET ASSETS	\$ 11,425,344	\$ 450,255	\$ 11,875,599

See accompanying notes to the financial statements.

EDMONSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 9,501,262	\$ 22,141	\$ 2,075,199	\$ 26,464	\$ (7,377,458)	\$ 0	\$ (7,377,458)	
Support Services:								
Student	425,519	0	58,913	0	(366,606)	0	(366,606)	
Instructional staff	522,335	0	164,201	0	(358,134)	0	(358,134)	
District administration	603,008	0	0	0	(603,008)	0	(603,008)	
School administration	483,159	0	0	0	(483,159)	0	(483,159)	
Business	183,743	0	0	0	(183,743)	0	(183,743)	
Plant operations and maintenance	1,111,205	0	70,255	0	(1,040,950)	0	(1,040,950)	
Student transportation	1,038,459	0	119,205	0	(919,254)	0	(919,254)	
Central office	20,317	0	14,685	0	(5,632)	0	(5,632)	
Other	475,308	0	392,618	0	(82,690)	0	(82,690)	
Facilities acquisition and construction	11	0	0	517,071	517,060	0	517,060	
Interest on long-term debt	494,117	0	0	426,695	(67,422)	0	(67,422)	
TOTAL GOVERNMENTAL ACTIVITIES	14,858,443	22,141	2,895,076	970,230	(10,970,996)	0	(10,970,996)	

See accompanying notes to the financial statements.

BUSINESS-TYPE ACTIVITIES

Food services	932,033	376,977	615,669	0	0	60,613	60,613
TOTAL BUSINESS-TYPE ACTIVITIES	<u>932,033</u>	<u>376,977</u>	<u>615,669</u>	<u>0</u>	<u>0</u>	<u>60,613</u>	<u>60,613</u>
TOTAL SCHOOL DISTRICT	<u>\$ 15,790,476</u>	<u>\$ 399,118</u>	<u>\$ 3,510,745</u>	<u>\$ 970,230</u>	<u>(10,970,996)</u>	<u>60,613</u>	<u>(10,910,383)</u>

GENERAL REVENUES

Taxes:

Property	1,202,206	0	1,202,206
Motor vehicle	299,989	0	299,989
Utilities	404,675	0	404,675
Unmined minerals	8,559	0	8,559
State aid	9,455,495	0	9,455,495
Investment earnings	192,209	2,899	195,108
Other	173,473	146	173,619
Transfers	0	77,236	77,236

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS	765,610	140,894	906,504
NET ASSETS – BEGINNING	10,659,734	309,361	10,969,095
NET ASSETS – ENDING	<u>\$ 11,425,344</u>	<u>\$ 450,255</u>	<u>\$ 11,875,599</u>

See accompanying notes to the financial statements.

EDMONSON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash	\$ 1,805,717	\$ 100,641	\$ 2,010,682	\$ 5,681	\$ 3,922,721
Investments	0	0	4,539,442	0	4,539,442
Accounts receivable:					
Accounts	89,371	526,447	0	0	615,818
Due from other funds	192,541	0	0	0	192,541
TOTAL ASSETS	\$ 2,087,629	\$ 627,088	\$ 6,550,124	\$ 5,681	\$ 9,270,522

See accompanying notes to the financial statements.

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 58,599	\$ 32,647	\$ 2,059,285	\$ 0	\$ 2,150,531
Accrued liabilities	19,326	0	0	0	19,326
Due to other funds	0	192,541	0	0	192,541
Deferred revenue	0	333,906	0	0	333,906
TOTAL LIABILITIES	77,925	559,094	2,059,285	0	2,696,304

FUND BALANCES

Reserved for:					
BG-1 projects	0	0	4,490,839	0	4,490,839
SFCC	0	0	0	1,610	1,610
Site based carryforward	28,396	0	0	0	28,396
Retirement benefits	84,253	0	0	0	84,253
Unreserved	1,897,055	67,994	0	4,071	1,969,120
TOTAL FUND BALANCES	2,009,704	67,994	4,490,839	5,681	6,574,218

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 2,087,629	\$ 627,088	\$ 6,550,124	\$ 5,681	\$ 9,270,522
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See accompanying notes to the financial statements.

**EDMONSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2003**

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 6,574,218

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds. The cost of the
assets is \$27,313,777, and the accumulated depreciation is \$8,086,778. 19,226,999

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Bonds payable	(13,705,414)
Accrued interest of the bonds	(173,028)
Compensated absences	<u>(497,431)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 11,425,344

See accompanying notes to the financial statements.

EDMONSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property	\$ 843,150	\$ 0	\$ 0	\$ 359,056	\$ 1,202,206
Motor vehicle	299,989	0	0	0	299,989
Utilities	404,675	0	0	0	404,675
Unmined minerals	8,559	0	0	0	8,559
Tuition and fees	22,141	0	0	0	22,141
Earnings on investments	189,268	2,941	33,840	0	226,049
Other local revenue	169,270	21,631	0	0	190,901
Intergovernmental – state	9,455,495	1,203,923	0	909,926	11,569,344
Intergovernmental – federal	11,972	1,695,986	0	0	1,707,958
TOTAL REVENUES	11,404,519	2,924,481	33,840	1,268,982	15,631,822
EXPENDITURES					
Current:					
Instruction	6,974,763	2,177,625	0	0	9,152,388
Support services:					
Student	366,606	58,913	0	0	425,519
Instructional staff	352,191	164,201	0	0	516,392
District administration	596,811	0	0	0	596,811

See accompanying notes to the financial statements.

School administration	475,290	0	0	0	475,290
Business	183,743	0	0	0	183,743
Plant operations and maintenance	1,081,041	70,255	0	0	1,151,296
Student transportation	802,882	119,205	0	0	922,087
Central office	5,632	14,685	0	0	20,317
Other	82,690	392,618	0	0	475,308
Debt service:					
Principal	0	0	0	744,593	744,593
Interest	0	0	0	445,324	445,324
Capital outlay:					
Facilities acquisition and construction	0	0	5,342,373	0	5,342,373
TOTAL EXPENDITURES	10,921,649	2,997,502	5,342,373	1,189,917	20,451,441
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	482,870	(73,021)	(5,308,533)	79,065	(4,819,619)
OTHER FINANCING SOURCES (USES)					
Bond proceeds	0	0	7,185,000	0	7,185,000
Payment to escrow agent	0	0	0	(297,000)	(297,000)
Operating transfers	(1,286,062)	17,297	2,093,548	(824,783)	0
TOTAL OTHER FINANCING SOURCES (USES)	(1,286,062)	17,297	9,278,548	(1,121,783)	6,888,000
NET CHANGE IN FUND BALANCE	(803,192)	(55,724)	3,970,015	(1,042,718)	2,068,381
FUND BALANCE – BEGINNING	2,812,896	123,718	520,824	1,048,399	4,505,837
FUND BALANCE – ENDING	\$ 2,009,704	\$ 67,994	\$ 4,490,839	\$ 5,681	\$ 6,574,218

See accompanying notes to the financial statements.

**EDMONSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003**

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$	2,068,381
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$5,631,517) exceeds depreciation expense (\$667,487) in the period.		4,964,030
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual gain/loss from the sale net to this amount for the year.		(7,669)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,051,743
The proceeds for the issuance of bonds provide current financial resources and are reported in the fund financial statements but they are presented as liabilities in the statement of net assets.		(7,185,000)
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.		(125,875)
CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	\$	<u>765,610</u>

See accompanying notes to the financial statements.

EDMONSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
<hr/>	
ASSETS	
CURRENT ASSETS	
Cash	\$ 107,070
Accounts receivable:	
Accounts	49,923
Inventory	29,343
TOTAL CURRENT ASSETS	<u>186,336</u>
NON-CURRENT ASSETS	
Fixed assets – net	<u>264,451</u>
TOTAL ASSETS	<u>\$ 450,787</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 532
TOTAL CURRENT LIABILITIES	<u>532</u>
NET ASSETS	
Invested in capital assets, net of related debt	264,451
Unrestricted	185,804
TOTAL NET ASSETS	<u>450,255</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 450,787</u>

See accompanying notes to the financial statements.

EDMONSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	\$ 376,977
TOTAL OPERATING REVENUES	<u>376,977</u>
OPERATING EXPENSES	
Salaries and wages	456,409
Contract services	7,459
Materials and supplies	440,662
Other operating expenses	408
Depreciation expense	27,095
TOTAL OPERATING EXPENSES	<u>932,033</u>
OPERATING LOSS	<u>(555,056)</u>
NON-OPERATING REVENUES (EXPENSES)	
State operating grants	55,112
Federal operating grants	485,000
Donated commodities	75,557
Interest revenue	2,899
Other	146
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>618,714</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	63,658
CAPITAL CONTRIBUTIONS	<u>77,236</u>
CHANGE IN NET ASSETS	<u>140,894</u>
TOTAL NET ASSETS – BEGINNING, AS ORIGINALLY STATED	322,786
PRIOR PERIOD ADJUSTMENT	<u>(13,425)</u>
TOTAL NET ASSETS – BEGINNING, RESTATED	<u>309,361</u>
TOTAL NET ASSETS – ENDING	<u><u>\$ 450,255</u></u>

See accompanying notes to the financial statements.

EDMONSON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 372,369
Cash payments to employees for services	(456,409)
Cash payments for contract services	(7,459)
Cash payments to suppliers for goods and services	(363,946)
Cash payments in other operating expenses	(408)
NET CASH USED IN OPERATING ACTIVITIES	(455,853)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants received	517,494
Other	146
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	517,640
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(19,966)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(19,966)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	2,899
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,899
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,720
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	62,350
CASH AND CASH EQUIVALENTS – END OF THE YEAR	\$ 107,070

See accompanying notes to the financial statements.

**ENTERPRISE
FUND
FOOD SERVICE**

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES**

Operating loss	\$ (555,056)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	27,095
Commodities used	75,557
Changes in assets and liabilities:	
Receivables	(4,608)
Inventories	1,443
Accounts payable	(284)
	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (455,853)</u></u>

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

The food service fund received \$75,557 of donated commodities from the federal government.

The construction fund contributed \$77,236 of fixed assets to the food service fund.

See accompanying notes to the financial statements.

EDMONSON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

		AGENCY FUNDS
ASSETS		
ASSETS		
Cash		\$ 101,078
	TOTAL ASSETS	\$ 101,078
LIABILITIES		
LIABILITIES		
Due to student groups		\$ 101,078
	TOTAL LIABILITIES	\$ 101,078

See accompanying notes to the financial statements.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Edmonson County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Edmonson County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Edmonson County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization is included in the accompanying financial statements:

Edmonson County School District Finance Corporation — The Edmonson County Board of Education resolved to authorize the establishment of the Edmonson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Edmonson County Board of Education also comprise the Corporation's Board of Directors.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

• **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

• Proprietary Fund Types

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

• **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustees capacity or as an agent on behalf of others.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Cash and Cash Equivalents**

The District considers demand deposits, money market funds and other highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

● **Investments**

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

● **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE**

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (GASB 34). Statement No. 34 makes significant changes in financial reporting. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted; Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The District has implemented these standards effective July 1, 2002.

Statement No. 34, among other changes, adds two new "Government-Wide" (District-Wide) financial statements as basic financial statements required for all governmental units. The Statement of Net assets and the Statement of Activities are the two new required statements. Both statements are prepared on the full accrual basis. The government-wide financial statements split the District's programs between business-type and governmental activities. Previously, in accordance with accounting standards for governmental units, the District used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds are reported as governmental, proprietary or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note 1.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus non-major funds.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE (Continued)**

The restatement of the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	General	Special Revenue	Construction	Non-Major	Total
Fund equity, June 30, 2002	\$ 2,812,896	\$ 123,718	\$ 520,824	\$ 1,048,399	\$ 4,505,837
GASB 34 adjustments:					
Capital assets, net of depreciation					14,270,638
Long-term liabilities					(7,572,157)
Accrued compensated absences					(430,499)
Accrued interest payable					(114,085)
					<u><u>\$ 10,659,734</u></u>

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed a difference in the proprietary fixed assets that was previously recorded. Changes as a result of the GASB 34 implementation are as follows:

	<u>School Food Service</u>
Fund equity, June 30, 2002	\$ 322,786
Change in fixed assets	<u>(13,425)</u>
Adjusted Fund Equity, June 30, 2002	<u><u>\$ 309,361</u></u>

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH AND INVESTMENTS

● **Deposits**

At June 30, 2003, the carrying amounts of the District's deposits were \$4,130,869 and the bank balances were \$4,968,333 which was covered by federal depository insurance or by collateral held by the banks in the District's name.

The carrying amounts of cash are reflected in the financial statements as follows:

Governmental funds	\$ 3,922,721
Proprietary funds	107,070
Fiduciary funds	<u>101,078</u>
	<u><u>\$ 4,130,869</u></u>

● **Investments**

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds.

The District's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH AND INVESTMENTS (Continued)

	Categories			Reported Amount
	1	2	3	
U.S. Obligations and Agencies	\$ 2,769,060	\$ 0	\$ 0	\$ 2,769,060
Repurchase Agreements	1,593,344	0	0	1,593,344
Commercial Paper	177,038	0	0	177,038
	<u>\$ 4,539,442</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,539,442</u>

The carrying amounts of investments are reflected in the financial statements as follows:

Governmental funds \$ 4,539,442

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2003 consist of the following:

Receivable Fund	Payable Fund	Amount
General	Special Revenue	<u>\$ 192,541</u>

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 284,939	\$ 56,950	\$ 100	\$ 341,789
Construction in progress	938,543	5,342,362	1,248,010	5,032,895
Total Nondepreciable Historical Cost	1,223,482	5,399,312	1,248,110	5,374,684
Capital assets that are depreciated:				
Land improvements	846,354	123,348	0	969,702
Buildings and improvements	15,503,342	1,038,896	11,206	16,531,032
Technology equipment	1,612,844	226,401	240,150	1,599,095
Vehicles	2,211,778	56,966	0	2,268,744
General	538,381	34,704	2,565	570,520
Total Depreciable Historical Cost	20,712,699	1,480,315	253,921	21,939,093
Less accumulated depreciation for:				
Land improvements	526,544	26,388	0	552,932
Buildings and improvements	4,009,745	325,318	11,206	4,323,857
Technology equipment	1,457,976	128,476	234,148	1,352,304
Vehicles	1,380,770	147,996	0	1,528,766
General	290,508	39,309	898	328,919
Total Accumulated Depreciation	7,665,543	667,487	246,252	8,086,778
Total Depreciable Historical Cost, Net	13,047,156	812,828	7,669	13,852,315
Governmental Activities, Capital Assets, Net	\$ 14,270,638	\$ 6,212,140	\$ 1,255,779	\$ 19,226,999

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
General	\$ 399,953	\$ 97,202	\$ 0	\$ 497,155
Less accumulated depreciation	205,609	27,095	0	232,704
Business-Type Activities, Capital Assets, Net	\$ 194,344	\$ 70,107	\$ 0	\$ 264,451

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 482,132
Instruction staff	5,943
District administration	6,197
School administration	7,869
Facilities operations	5,882
Student transportation	159,464
Total Depreciation Expense	\$ 667,487

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS

On October 30, 2002, the District issued \$500,000 of Qualified Zone Academy Bonds (QZAB). The bonds were approved for the high school renovation project. As stated in the agreement, \$297,000 of the proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the \$500,000 bond issue. As a result, the \$500,000 QZAB are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. The refunding of the bonds resulted in a gain of \$203,000 and is shown in the financial statements as a deduction from bonds payable. The gain will be amortized to operations over the bonds' life of 15 years using the effective interest method.

On October 1, 2002, the District issued \$6,685,000 in bonds with an average interest rate of 3.07% for the high school renovation project.

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1993	\$ 139,701	3.90%—4.10%
1997	2,405,000	3.75%—4.60%
1998	1,655,000	3.55%—4.125%
1998	347,000	3.75%—4.25%
1999	494,000	3.70%—4.40%
1999	4,560,000	4.00%—5.20%
2000	286,894	4.15%—4.60%
2002	6,685,000	1.55%—4.58%

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Edmonson County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

Year	Edmonson County School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2003—2004	\$ 457,294	\$ 444,467	\$ 103,722	\$ 325,546	\$ 1,331,029
2004—2005	438,352	447,104	90,308	345,787	1,321,551
2005—2006	419,677	466,270	76,225	150,867	1,113,039
2006—2007	403,238	481,407	70,252	144,799	1,099,696
2007—2008	385,436	499,462	63,936	163,169	1,112,003
2008—2009	366,448	516,545	56,942	170,332	1,110,267
2009—2010	348,465	425,107	49,523	177,674	1,000,769
2010—2011	331,416	443,542	41,658	185,486	1,002,102
2011—2012	313,628	432,522	35,784	72,478	854,412

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

Year	Edmonson County School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2012—2013	295,057	447,626	32,162	72,374	847,219
2013—2014	276,762	468,895	28,450	76,105	850,212
2014—2015	257,259	485,000	24,548	80,000	846,807
2015—2016	236,457	505,932	20,446	84,068	846,903
2016—2017	214,080	531,578	16,089	88,422	850,169
2017—2018	190,058	556,910	11,449	93,090	851,507
2018—2019	164,438	581,963	6,515	98,037	850,953
2019—2020	137,052	608,735	1,983	76,265	824,035
2020—2021	112,150	500,000	0	0	612,150
2021—2022	89,850	525,000	0	0	614,850
2022—2023	65,925	550,000	0	0	615,925
2023—2024	40,500	580,000	0	0	620,500
2024—2025	13,725	610,000	0	0	623,725
	<u>\$ 5,557,267</u>	<u>\$ 11,108,065</u>	<u>\$ 729,992</u>	<u>\$ 2,404,499</u>	<u>\$ 19,799,823</u>

Changes in long-term obligations are as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Amounts Due Within One Year
District debt:					
Compensated absences . .	\$ 430,499	\$ 92,978	\$ 26,046	\$ 497,431	\$ 70,686
Bonds	7,572,157	7,185,000	1,051,743	13,705,414	770,013
	<u>\$ 8,002,656</u>	<u>\$ 7,277,978</u>	<u>\$ 1,077,789</u>	<u>\$ 14,202,845</u>	<u>\$ 840,699</u>

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 7: PENSION PLANS

Plan Descriptions. The Edmonson County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy. KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 6.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2003, 2002 and 2001 were \$138,578, \$137,980 and \$134,687, respectively, equal to the required contributions for each year.

The amount recognized for revenues and expenditures/expenses for on-behalf payments relating to fringe benefits for the year ended June 30, 2003 was \$1,849,575 for governmental funds and \$41,228 for proprietary funds.

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 8: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 9: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers'

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 10: RISK MANAGEMENT (Continued)

Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 11: EXCESS EXPENDITURES OVER
 APPROPRIATIONS**

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Fund	Amount
General Fund	\$ 803,192
Special Revenue	55,724
SEEK Capital Outlay	89,326
FSPK	953,392

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 12: FUND TRANSFERS

Fund transfers for the year ended June 30, 2003 consist of the following:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Debt Service	Debt Service	\$ 458,902
General	Special Revenue	Match	17,297
General	Construction	Construction	809,863
SEEK	Debt Service	Debt Service	180,316
SEEK	Construction	Construction	90,000
FSPK	Debt Service	Debt Service	421,004
FSPK	Construction	Construction	1,193,685

Required Supplemental
Information

EDMONSON COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2003

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 1,688,018	\$ 1,900,212	\$ 1,937,052	\$ 36,840
State programs	7,065,133	7,605,868	9,455,495	1,849,627
Federal programs	6,000	11,786	11,972	186
TOTAL REVENUES	8,759,151	9,517,866	11,404,519	1,886,653
EXPENDITURES				
Current:				
Instruction	5,289,002	5,690,737	6,974,763	(1,284,026)
Support services:				
Student	315,052	308,547	366,606	(58,059)
Instructional staff	308,403	297,257	352,191	(54,934)
District administration	3,902,060	2,126,915	596,811	1,530,104
School administration	445,186	450,617	475,290	(24,673)
Business	154,039	155,627	183,743	(28,116)
Plant operations and maintenance	812,959	1,025,913	1,081,041	(55,128)
Student transportation	883,228	887,774	802,882	84,892
Central office	850	3,350	5,632	(2,282)
Other	108,873	25,041	82,690	(57,649)
TOTAL EXPENDITURES	12,219,652	10,971,778	10,921,649	50,129

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,460,501)</u>	<u>(1,453,912)</u>	<u>482,870</u>	<u>1,936,782</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers	<u>(45,000)</u>	<u>(1,286,062)</u>	<u>(1,286,062)</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(45,000)</u>	<u>(1,286,062)</u>	<u>(1,286,062)</u>	<u>0</u>
NET CHANGE IN FUND BALANCE	<u>(3,505,501)</u>	<u>(2,739,974)</u>	<u>(803,192)</u>	<u>1,936,782</u>
FUND BALANCES – BEGINNING	<u>2,812,896</u>	<u>2,812,896</u>	<u>2,812,896</u>	<u>0</u>
FUND BALANCES – ENDING	<u>\$ (692,605)</u>	<u>\$ 72,922</u>	<u>\$ 2,009,704</u>	<u>\$ 1,936,782</u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

Actual amounts (budgetary basis) \$ 9,554,944

Differences — budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budget amounts 1,849,575

Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds

\$ 11,404,519

Outflows/expenses:

Actual amounts (budgetary basis) \$ 9,072,074

Differences — budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budget amounts 1,849,575

Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds

\$ 10,921,649

Supplemental Information

EDMONSON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003

	SEEK FUND	FSPK FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS				
Cash	\$ 5,424	\$ 257	\$ 0	\$ 5,681
TOTAL ASSETS	<u>\$ 5,424</u>	<u>\$ 257</u>	<u>\$ 0</u>	<u>\$ 5,681</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Reserved for:				
SFCC	1,610	0	0	1,610
Unreserved	3,814	257	0	4,071
TOTAL FUND BALANCES	<u>5,424</u>	<u>257</u>	<u>0</u>	<u>5,681</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,424</u>	<u>\$ 257</u>	<u>\$ 0</u>	<u>\$ 5,681</u>

EDMONSON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	SEEK FUND	FSPK FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Taxes:				
Property	\$ 0	\$ 359,056	\$ 0	\$ 359,056
Intergovernmental — state	180,990	302,241	426,695	909,926
TOTAL REVENUES	<u>180,990</u>	<u>661,297</u>	<u>426,695</u>	<u>1,268,982</u>
EXPENDITURES				
Debt service:				
Principal	0	0	744,593	744,593
Interest	0	0	445,324	445,324
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>1,189,917</u>	<u>1,189,917</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>180,990</u>	<u>661,297</u>	<u>(763,222)</u>	<u>79,065</u>
OTHER FINANCING SOURCES (USES)				
Payment to escrow agent	0	0	(297,000)	(297,000)
Operating transfers	(270,316)	(1,614,689)	1,060,222	(824,783)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(270,316)</u>	<u>(1,614,689)</u>	<u>763,222</u>	<u>(1,121,783)</u>
NET CHANGE IN FUND BALANCE	<u>(89,326)</u>	<u>(953,392)</u>	<u>0</u>	<u>(1,042,718)</u>
FUND BALANCES — BEGINNING	<u>94,750</u>	<u>953,649</u>	<u>0</u>	<u>1,048,399</u>
FUND BALANCES — ENDING	<u><u>\$ 5,424</u></u>	<u><u>\$ 257</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 5,681</u></u>

EDMONSON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
ALL AGENCY FUNDS
June 30, 2003

	<u>CASH</u> <u>JUNE 30, 2003</u>	<u>ACCOUNTS</u> <u>RECEIVABLE</u>	<u>ACCOUNTS</u> <u>PAYABLE</u>	<u>DUE TO</u> <u>STUDENT</u> <u>GROUPS</u> <u>JUNE 30, 2003</u>
Edmonson County High School	\$ 59,945	\$ 0	\$ 0	\$ 59,945
Edmonson County Middle School	19,876	0	0	19,876
Kyrock Elementary School	4,463	0	0	4,463
South Edmonson Elementary School	16,794	0	0	16,794
	<u>\$ 101,078</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 101,078</u>

EDMONSON COUNTY SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
EDMONSON COUNTY HIGH SCHOOL
June 30, 2003

	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
Office	\$ 7,022	\$ 0	\$ 0	\$ 7,022
Student Generated	3,239	0	0	3,239
Teacher Generated	5	0	0	5
Textbook	306	0	0	306
Flower Fund	546	0	0	546
Athletics	2,001	0	0	2,001
FFA	144	0	0	144
Farm and Greenhouse	14,588	0	0	14,588
Yearbook	6,314	0	0	6,314
Art Club	310	0	0	310
Drama	40	0	0	40
Seniors	2,315	0	0	2,315
Sophomores/Juniors	532	0	0	532
VICA	969	0	0	969
Welding	585	0	0	585
Family & CS Science	510	0	0	510
Woodworking	877	0	0	877
Beta Club	1,531	0	0	1,531
FBLA	46	0	0	46
FHA	1,954	0	0	1,954
Friends	6,511	0	0	6,511
Literary Club	258	0	0	258
Math Club	880	0	0	880
Pep Club	102	0	0	102
International Club	6,837	0	0	6,837
Academic Team	23	0	0	23
Band	22	0	0	22
FCA	38	0	0	38
K-Club	199	0	0	199
Student Government	1,241	0	0	1,241
TOTAL	\$ 59,945	\$ 0	\$ 0	\$ 59,945

EDMONSON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	0575-00-05	\$ 285,034
National School Lunch Program	10.555	0575-00-02	199,966
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.555	—	75,557
TOTAL U.S. DEPARTMENT OF AGRICULTURE			560,557
U.S. DEPARTMENT OF EDUCATION			
Impact Aid	84.041	—	6,286
Passed-Through State Department of Education:			
Title I — 2002	84.010	0531-02-01	73,547
Title I — 2003	84.010	0531-03-01	465,574
Migrant Education Basic — 2002	84.011	—	8,218
Migrant Education Basic — 2003	84.011	—	2,166
Migrant Education	84.011	—	11,844
Evenstart	84.213C	588-03-02Z	70,486
Dropout Prevention	84.360	—	61,320
Title VI	84.298A	0533-02-02	6,306
Title VI — Innovative Programs	84.298	—	7,005
IDEA — Part B Special Education — 2002	84.027	0581-02-02	260
IDEA — Part B Special Education — 2003	84.027	0581-03-02	270,317
IDEA — Silver	84.027	0581-03-02	2,379
IDEA — Part B Preschool	84.173	0587-03-02	21,431
Vocational Education — Basic — 2002	84.048	5462-02-32	1,046
Vocational Education — Basic — 2003	84.048	5462-03-32	27,712
Title VI — Rural/Low Income	84.358B	—	38,656
Tech Prep	84.243	—	10,516
Adult Education — Dev	84.002	—	10,237
Adult Education	84.002	—	22,799
Adult Education — Staff Development	84.002	—	2,200
Technology Literacy Challenge	84.318	0736-01-02	1,020
Class Size Reduction	84.340	—	137
Reading Excellence	84.338	053-00-02Z	13,895
Title II — Teacher Quality	84.367	—	141,118
Title II	84.281	0530-02-02	4,338
Title II — Dwight D. Eisenhower PD — 1999	84.281A	0530-00-02	5,686

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Title IV — 2002	84.186A	0530-02-02	3,897
Title IV — 2003	84.186A	0530-03-02	15,457
21 st Century Learning Center — 2002	84.287B	—	46,207
21 st Century Learning Center — 2003	84.287B	—	253,799
Title II — Education Technology	84.318X	—	13,857
High School That Works	84.215G	—	34,212
TOTAL U.S. DEPARTMENT OF EDUCATION			1,653,928
U.S. DEPARTMENT OF LABOR			
Passed-Through State Department of Education:			
Jobs for KY Graduates	17.250	—	22,164
Passed-Through Green River Area Development District:			
Workforce Investment Act — 2003	17.255	—	27,877
TOTAL U.S. DEPARTMENT OF LABOR			50,041
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed-Through Green River Area Development District:			
Service Learning Grant	94.004	—	3,989
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			3,989
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,268,515

EDMONSON COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Edmonson County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

EDMONSON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2003

None



Holland CPAs
Professional Service Corporation

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District
Brownsville, Kentucky

We have audited the financial statements of **Edmonson County School District** (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated September 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract—State Audit Requirements*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 9, 2003.

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 9, 2003



Holland CPAs
Professional Service Corporation

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District
Brownsville, Kentucky

● **Compliance**

We have audited the compliance of ***Edmonson County School District*** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards and

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OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

● **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 9, 2003

EDMONSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

EDMONSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2003

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555 / 10.559	Child Nutrition Cluster
84.010	Title I
84.287	21 st Century Learning

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

None.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.



Holland CPAs
Professional Service Corporation

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District
Brownsville, Kentucky

In planning and performing our audit of the financial statements of **Edmonson County School District** (the "District") for the year ended June 30, 2003, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Comments from the prior year that have not been corrected will be listed in this letter. A separate report dated September 9, 2003 contains our report on the District's internal control. This letter does not affect our report dated September 9, 2003 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Holland CPAs, PSC

Bowling Green, Kentucky
September 9, 2003

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EDMONSON COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2003

● **Edmonson County High School**

- U During our review of receipts, it came to our attention that the school had directly received a donation of \$12,000 without the Board's knowledge. *KDE, A Uniform Program of Accounting for School Activity Funds* ("Red Book") requires that donations be received at the School Board. We suggest that all donations be forwarded to the Board.

● **Edmonson County Middle School**

- U During our review of disbursements, it came to our attention the person requesting a purchase did not sign the purchase request. We recommend the person requesting the purchase sign the purchase request.

● **Kyrock Elementary School**

- U During our review of receipts and disbursements, we noted that not all money received and disbursed went through the activity funds. For example, students will pay a teacher for a field trip and the teacher will pay for the field trip directly. *KDE, A Uniform Program of Accounting for School Activity Funds* ("Red Book") states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money. A copy of Form F-SA-6 or a copy of the pre-numbered receipt shall be retained by the teacher/sponsor and a copy shall be given to the school treasurer." We suggest that teachers use this form when collecting fees from students so that all money flows through the activity funds.

● **South Edmonson Elementary School**

- U During our review of the schools' annual financial report (AFR), we noted an account titled "*Miscellaneous Fund*". We recommend this fund be discontinued and closed. Transactions of activity funds should be recorded in their applicable fund. Transactions not affecting a particular school activity fund should be reflected in the school's general fund.

EDMONSON COUNTY BOARD OF EDUCATION

DARRELL CASSADY, SUPERINTENDENT

100 Wildcat Way, P O Box 129

Brownsville, Kentucky 42210

Phone 270-597-2102 Fax 270-597-2103

November 7, 2003

Fiscal Year 2003

Management Letter Responses:

Edmonson County High School:

Comment: During our review of receipts, it came to our attention that the school had directly received a donation of \$12,000 without the Board's knowledge. KDE, A Uniform Program of Accounting for School Activity Funds ("Red Book") requires that donations be received at the School Board. We suggest that all donations be forwarded to the Board.

Response: The Future Farmers of America received a grant of \$12,092 from the Kentucky Department of Agriculture. Proceeds from the grant will fund an addition to the FFA barn located on school premises. Award notification was not communicated to the central office. The district finance policy requires any donation or grant exceeding \$500 to be forwarded to the central office. Clearly, this procedure was not followed in this case. The appropriate personnel have been made aware of the auditors finding and have been informed that this policy must be followed without exception in the future.

Edmonson County Middle School:

Comment: During our review of disbursements, it came to our attention the person requesting a purchase did not sign the purchase request. We recommend the person requesting the purchase sign the purchase request.

Response: The exceptions noted were referring to primarily purchases that are made by the principal for athletic programs. The principal was not obtaining a second signature on invoices from the coaches. The audit finding and recommendation is acknowledged. Greater effort will be made in the future to obtain dual signatures from sponsors and/or coaches on all purchases.

Kyrock Elementary School:

Comment: During our review of receipts and disbursements, we noted that not all money received and disbursed went through the activity funds. For example, students will pay a teacher for a field trip and the teacher will pay for the field trip directly. KDE, A Uniform Program of Accounting for School Activity Funds ("Red Book") states "Teachers/sponsors/students shall use the Multiple Receipt Form (form F-SA-6) or pre-numbered receipts when collecting money. A copy of Form F-SA-6 or a copy of the pre-numbered receipt shall be retained by the teacher/sponsor and a copy shall be given to the school treasurer." We suggest that teachers use this form when collecting fees from students so that all money flows through the activity funds.

Response: The auditors finding and recommendation is acknowledged. The principal and secretary will make sure all field trip receipts and disbursements are accounted for through the activity fund.

South Edmonson Elementary School:

Comment: During our review of the schools' annual financial report (AFR), we noted an account titled "Miscellaneous Fund". We recommend this fund be discontinued and closed. Transactions of activity funds should be recorded in their applicable fund. Transactions not affecting a particular school activity fund should be reflected in the school's general fund.

Response: The auditors finding and recommendation is acknowledged. The account balance will be transferred to another activity account and the Miscellaneous Fund will be closed.

Kathy Meredith
Finance Officer



Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District
Brownsville, Kentucky

We have audited the financial statements of ***Edmonson County School District*** (the "District") for the year ended June 30, 2003, and have issued our report thereon dated September 9, 2003. Professional standards require that we provide you with the following information related to our audit.

- **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and Procedures for Auditing Local School Districts' Fiscal Records**

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

- **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in *Note 1* to the financial statements. As described in *Note 2* to the financial statements, the District changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34 as of July 1, 2002. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you or transactions for which there is a lack of authoritative guidance or consensus.

- **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. We would be glad to discuss the nature of these adjustments with you.

- **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

- **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

- **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management of **Edmonson County School District** and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC